



**COUNTY OF LOS ANGELES
DEPARTMENT OF AUDITOR-CONTROLLER**

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August 21, 2007

TO: Supervisor Zev Yaroslavsky, Chairman
Supervisor Gloria Molina
Supervisor Yvonne B. Burke
Supervisor Don Knabe
Supervisor Michael D. Antonovich

FROM: J. Tyler McCauley 
Auditor-Controller

SUBJECT: **MANAGED CARE SOLUTIONS, INC. CONTRACT - WORKFORCE
INVESTMENT ACT PROGRAM PROVIDER**

We have conducted a program, fiscal and administrative contract review of Managed Care Solutions, Inc. (MCS or Agency), a Workforce Investment Act (WIA) program provider.

Background

The Department of Community and Senior Services (DCSS) contracts with MCS, a private for-profit organization, to provide and operate the WIA Adult and Dislocated Worker Programs. The WIA Adult and Dislocated Worker Programs assist individuals obtain employment, retain their jobs and increase their earnings. The type of services provided by MCS include occupational skills training, job placement and career planning. MCS is located in the Fifth District.

MCS is compensated on a cost reimbursement basis. MCS' contract was for \$167,074 for Fiscal Year (FY) 2006-07.

Purpose/Methodology

The purpose of the review was to determine whether MCS complied with its contract terms and appropriately accounted for and spent WIA funds in providing services to

"To Enrich Lives Through Effective and Caring Service"

eligible participants. We also evaluated the adequacy of the Agency's accounting records, internal controls and compliance with federal, State and County guidelines.

Results of Review

The seven program participants interviewed stated that the services they received met their expectations. However, MCS billed \$7,949 in unsupported and unallowable program expenditures and did not always comply with WIA and County contract requirements. Specifically, MCS:

- Billed DCSS \$7,290 for unsupported or unallowable expenditures. MCS inappropriately billed DCSS \$6,476 in FY 2005-06 for expenditures incurred in FY 2006-07. In addition, MCS overbilled \$594 and did not maintain documentation to support \$220 in office supplies.
- Billed DCSS \$659 in payroll expenditures related to a non-WIA employee.
- Did not document on 11 (65%) of the 17 participants' Individual Employment Plans, the justification for supportive services or the dispositions of the planned activities.
- Did not obtain criminal clearances for three of the WIA employees sampled.

Details of our review along with recommendations for corrective action are attached.

Review of Report

We discussed our report with MCS and DCSS on June 21, 2007. In their attached response, MCS management disagreed on the following issues related to inappropriately accrued expenditures totaling \$6,476:

- MCS stated that office supplies purchased in FY 2006-07 were billed on FY 2005-06 close-out invoice because the FY 2006-07 WIA contract was not executed until August 2006. However, DCSS informed MCS at the exit conference that the County contract does not allow this practice.
- MCS stated that the Agency provided adjusting journal entries to the Auditor-Controller showing the reduction in the current year billing by \$3,800. However, MCS has not provided a copy of a FY 2006-07 invoice to DCSS showing the reduced billing amount by \$3,800. Therefore, we do not have assurance that the \$3,800 was appropriately repaid to DCSS.

- MCS stated that DCSS authorized MCS to accrue supplies and installation charges for a swipe machine as FY 2005-06 expenditures. However, MCS was not able to provide a written authorization received from DCSS.

We notified DCSS of the results of our review and thank MCS for their cooperation and assistance during this review. Please call me if you have any questions or your staff may contact Don Chadwick at (626) 293-1102.

JTM:MMO:DC

Attachment

c: William T Fujioka, Chief Executive Officer
Cynthia Banks, Director, Department of Community and Senior Services
Philip Starr, Psy.D., CEO, Managed Care Solutions, Inc.
Public Information Office
Audit Committee

**WORKFORCE INVESTMENT ACT PROGRAM
MANAGED CARE SOLUTIONS, INC.
FISCAL YEAR 2006-07**

ELIGIBILITY

Objective

Determine whether Managed Care Solutions, Inc. (MCS or Agency) provided services to individuals that meet the eligibility requirements of the Workforce Investment Act (WIA).

Verification

We reviewed the case files for 17 (40%) of the 42 program participants (ten from the adult program and seven from the dislocated worker program) that received services from July 2006 through January 2007 for documentation to confirm their eligibility for WIA services.

Results

All 17 participants met the eligibility requirements for the WIA programs.

Recommendation

There are no recommendations for this section.

BILLED SERVICES/CLIENT VERIFICATION

Objective

Determine whether the Agency provided the services in accordance with the County contract and WIA guidelines. In addition, determine whether the participants received the billed services.

Verification

We reviewed the documentation contained in the case files for 17 (40%) participants that received services from July 2006 through January 2007. We also interviewed seven participants.

Results

The seven participants interviewed confirmed that the services they received met their expectations. However, for 11 (65%) of the 17 participants' Individual Employment

Plans (IEP), MCS did not document the dispositions of the planned activities sections or the justification for the supportive services. The IEP is an on-going plan, jointly developed by the participant and the case manager that identifies the participant's employment goals, achievement objectives and the services needed to achieve their employment goals.

MCS also did not accurately update program activities for six (35%) of the 17 participants on the Job Training Automation (JTA) system. The JTA system is used by the State of California Employment Development Department and the Department of Labor to track WIA participant activities. Subsequent to our review, MCS provided the updated IEPs and JTA reports for the 11 participants.

Recommendations

MCS management:

- 1. Ensure that the IEPs for participants are complete and include all required information.**
- 2. Ensure that staff accurately update the JTA system to reflect the participants' program activities.**

CASH/REVENUE

Objective

Determine whether cash receipts and revenues are properly recorded in the Agency's records and deposited timely in their bank account. Determine whether there are adequate controls over cash, petty cash and other liquid assets.

Verification

We interviewed Agency personnel and reviewed financial records. We also reviewed the bank reconciliation for November 2006.

Results

MCS maintained adequate controls to ensure that revenue was properly recorded and deposited in a timely manner.

Recommendation

There are no recommendations for this section.

EXPENDITURES/PROCUREMENT**Objective**

Determine whether program related expenditures are allowable under the County contract, properly documented and accurately billed.

Verification

We interviewed Agency personnel, reviewed financial records and reviewed documentation for 30 (87%) non-payroll expenditure transactions billed by the Agency for October through November 2006, totaling \$8,651.

Results

MCS' expenditures were allowable, properly documented and accurately billed to the WIA program.

Recommendation

There are no recommendations for this section.

INTERNAL CONTROLS/CONTRACT COMPLIANCE**Objective**

Determine whether the contractor maintained sufficient internal controls over its business operations. In addition, determine whether the Agency is in compliance with other program and administrative requirements.

Verification

We interviewed Agency personnel, reviewed their policies and procedures manuals, conducted an on-site visit and tested transactions in various areas such as expenditures, payroll and personnel.

Results

MCS did not always comply with the County contract requirements. Specifically:

- MCS did not segregate its payroll and human resources functions. MCS' Human Resources Department was in charge of processing payroll and maintaining both payroll and personnel records.
- MCS' procurement policy did not require staff to document three price quotes for purchases over \$1,000 as required by WIA guidelines.

- MCS' accounting policy and procedures manual did not contain sections covering travel, audit, cash management, reimbursement procedures, incident reporting policy and procedures for bonding.
- MCS replenished its petty cash fund without an approver's signature. MCS' petty cash fund policies and procedures require the Director of Finance to review and sign the request for replenishment prior to payment.

Recommendations

MCS management:

3. **Ensure that payroll and human resources functions are segregated.**
4. **Ensure that the Agency's accounting and procurement policies and procedures are in compliance with the County contract and WIA guidelines.**
5. **Ensure that the Director of Finance reviews and approves replenishing petty cash funds.**

FIXED ASSETS AND EQUIPMENT

Objective

Determine whether MCS' fixed assets and equipment purchases made with WIA funds are used for the WIA programs and safeguarded.

Verification

We reviewed the Agency's inventory listing and performed an inventory of nine (41%) of the 22 items purchased with WIA funds, totaling \$10,431.

Results

The fixed assets and equipment purchased by MCS with WIA funds were used for the WIA adult and dislocated worker programs. However, MCS did not tag the items with County tags and MCS' inventory listing did not contain serial numbers, name of title holder or percentage of federal participation in the cost of property, as required. Subsequent to our review, MCS provided the inventory listing with required information. MCS management also indicated that the Agency is working with DCSS to obtain the County tags.

Recommendations**MCS management:**

6. Ensure that items purchased with WIA funds are tagged with County tags.
7. Ensure that the inventory list is current and includes the required information.

PAYROLL AND PERSONNEL**Objective**

Determine whether payroll is appropriately charged to the WIA program. In addition, determine whether personnel files are maintained as required.

Verification

We traced and agreed the payroll expenditures invoiced for all five employees totaling \$5,533 to the payroll records and time reports for November 2006. We also interviewed one employee and reviewed the personnel files for the three employees assigned to the WIA program.

Results

MCS billed DCSS \$659 during September to November 2006 for a terminated employee's benefits. The employment was terminated in August 2006. In addition, WIA employees' timecards did not indicate the hours worked each day by program as required by the County contract. Instead, the WIA Program Manager billed DCSS for payroll based on verbal responses obtained from WIA employees each pay period.

MCS also did not obtain criminal clearances, proof of auto insurance and confidentiality agreements from three employees sampled. In addition, MCS did not complete performance evaluations for three employees after three months of employment as stated in MCS' personnel policy. Subsequent to our review, MCS provided proof of auto insurance and performance evaluations for all three employees.

Recommendations**MCS management:**

8. Repay DCSS \$659.
9. Ensure that employees' timecards indicate the total hours worked each day by program.

10. Obtain criminal clearances for all staff working on the WIA program.
11. Ensure that required documentation is maintained in the personnel files.
12. Ensure that performance evaluations are performed and maintained in the employees' personnel files.

COST ALLOCATION PLAN

Objective

Determine whether MCS' Cost Allocation Plan was prepared in compliance with the County contract and the Agency used the plan to appropriately allocate shared program expenditures.

Verification

We reviewed the Cost Allocation Plan and reviewed a sample of expenditures incurred by the Agency from July through November 2006 to ensure that the expenditures were properly allocated to the Agency's programs.

Results

MCS' Cost Allocation Plan was prepared in compliance with the County contract and expenditures were appropriately allocated.

Recommendation

There are no recommendations for this section.

CLOSE-OUT REVIEW

Objective

Determine whether the Agency's Fiscal Year (FY) 2005-06 final close-out invoice was reconciled to the Agency's financial accounting records.

Verification

We traced and agreed the Agency's FY 2005-06 general ledger to the Agency's final close-out invoice for FY 2005-06. We also reviewed a sample of expenditures incurred between January and June 2006.

Results

MCS overbilled DCSS \$7,290 in program expenditures during FY 2005-06. Specifically:

- MCS did not maintain supporting documentation for office supplies totaling \$220.
- MCS incurred \$6,476 in expenditures during FY 2006-07 but billed DCSS in FY 2005-06. MCS billed \$3,800 in supportive services during FY 2005-06 for two participants who did not enroll in the WIA program until November and December 2006. MCS charged \$1,324 in office supplies during FY 2005-06 which were not ordered until July 2006. MCS billed \$1,352 in supplies and an installation charges for a machine that was not installed until February 2007. The County contract does not allow the Agency to bill for accrued or estimated costs. Subsequent to our review, MCS prepared adjusting journal entries to reduce the supportive services expense by \$3,800. However, MCS has not applied the adjustment to its invoice billed to DCSS.
- MCS billed DCSS \$8,744 in profit instead of \$8,150 based on the approved rate resulting in an overbilling of \$594.

Recommendations**MCS management:**

- 13. Repay DCSS \$7,290.**
- 14. Ensure that expenditures billed to DCSS are supported with adequate supporting documentation.**
- 15. Request reimbursement only for actual expenditures incurred during the program year.**
- 16. Ensure that profit billed to DCSS does not exceed the approved rate.**

MCS **Managed Career Solutions, Inc.**
(dba MCS Rehabilitation)

Philip Starr, Psy.D., C.R.C., A.B.V.E.
Esteban Magallanes, Psy.D., C.R.C., C.D.M.S.

July 25, 2007

Mr. J. Tyler McCauley
Auditor-Controller
County of Los Angeles
500 West Temple Street, Room 525
Los Angeles CA 90012

RE: Managed Career Solutions, Inc Contract-Workforce Investment Act Programs

This is to submit our response to the audit findings on the fiscal review of our WIA contract of fiscal year 2005-06 and 2006-07:

A. BILLED SERVICES/CLIENT VERIFICATION

Recommendation#1 Ensure that the IEPs for participants are complete and include all required information.

Recommendation#2 Ensure that staff accurately update the JTA system to reflect the participants' program activities.

Updated copies of the IEPs for the 11 participants were submitted to Ms. Susan Kim together with the JTA report that will show updated activities of all participants during the program year.

B. INTERNAL CONTROL/CONTRACT COMPLIANCE

Recommendation#3 Ensure payroll and human resources functions are segregated.
Effective July 1, 2007 payroll functions will be moved to the Accounting Department to segregate payroll and human resources functions.

Recommendation#4 Ensure that the Agency's accounting and procurement policies and procedures are in compliance with the County contract and WIA guidelines

MCS' policy, based on our cognizant agency requirement, is to secure three price quotes for purchase over \$25,000. However, we attached amendment to our policies to secure three price quotes for purchases made for our County WIA contract of amount over \$1,000.00.

We are in the process of updating our accounting policies and procedures which will include mileage and travel expenses reimbursements, internal audit, cash management, incident reporting and procedures for bonding. Updated copy of the Accounting policies and procedures will be submitted

to CSS office and Auditors-Controller office upon completion, no later than August 15, 2007.

Recommendation#5 Ensure that the Director of Finance reviews and approves replenishment petty cash funds.

We will enforce our current policy that all requests for Petty Cash replenishment shall be approved by the Director of Finance prior to processing.

C. FIXED ASSETS AND EQUIPMENT

Recommendation#6 Ensure that items purchased with WIA funds are tagged with County tags.

Recommendation#7 Ensure that the inventory list is current and includes the required information.

Inventory list of all fixed asset and equipment were submitted to the auditor which include county tag number for all computer equipment. We are in the process of requesting county tag labels for all the furniture at the center. An updated complete inventory list of fixed asset was also submitted to CSS office.

D. PAYROLL AND PERSONNEL

Recommendation#8 Repay DCSS \$659.

The amount paid and billed to the DCSS was payment for cobra health insurance paid by MCS as part of the negotiation for the additional services rendered by the former employee for the period from September to November 2006. Please note that this our first full year of the WIA center at Alhambra, and we are using all leverage to meet our goals and client expectation.

Recommendation#9 Ensure that employees' timecards indicate the total hours worked each day by program.

Employees are required to submit timesheet at the end of every payroll period (15th and 30th of the month) indicating the daily time-in time out and summary of the actual hours worked. The timecards will also shows actual hours allocated to each program (Adult & Dislocated Workers) per day.

Recommendation#10 Obtain criminal clearance for all staff working on the WIA program.

MCS is in the process of negotiation with vendor who will provide criminal clearance and or background checking of the employees assigned

at the County WIA contract. Confidentiality agreement are attached, performance evaluation were submitted to Ms. Susan Kim at the auditor-controller office.

E. CLOSEOUT REVIEW

Recommendation#13Repay DCSS \$7,070.00

Recommendation#14Ensure that expenditures billed to DCSS are supported with adequate supporting documentation.

Recommendation#15Request reimbursement only for actual expenditures incurred during the program year.

- Office supplies accrued as of June 30, 2006 but were not ordered thus expense not incurred. MCS will repay DCSS for the amount of \$220.00.
- A discussed and agreed during the exit conference supporting service expenses billed for 2006-07 was reduced by \$3,800 to adjust the 2005-06 over billing. Adjusting journal entry to this effect was previously submitted to Ms. Susan Kim.
- Office supplies requirements at the center were accrued as of June 30, 2006 was served in July 2006, and was paid using the 2005-06 funds. Please note that at the time the supplies were ordered and delivered (early July) the WIA contract with DCSS for 2006-07 were not processed yet and was executed at the later part of August 2006.
- MCS provided the API center at Alhambra Universal access Swipe Machine as leverage. Costs of supplies (Swipe card) and installation were accrued as of June 30, 2006 based on the previous negotiation with the DCSS. The machine is currently installed and working for the API client. Copy of the invoice paid to the vendor was submitted to Ms Susan Kim and we are requesting the expense be considered as allowable costs for 2005-06.

Recommendation#16Ensure that profit billed to DCSS does not exceed the approved rate

- MSC will issued a check payable to DCSS to repay the over billed amount of \$594.00 on this line item.

Should you need additional information, please call my staff Tito Maturan at 213 381 3110 ext 239.



Philip Starr
Executive Director